



**Annual Financial Statements
for the year ended 30 June 2015**

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

General Information

Nature of business and principal activities

Providing services to the community of Umzumbe

Executive Committee

Councillor Gumede ST (Mayor)
Councillor Dlamini NY (Deputy Mayor)
Councillor Ngcobo (Speaker)
Councillor Duma YL (Exco Member)
Councillor Mntambo JP (Exco Member)
Councillor Ndlovu M (Exco Member)
Councillor Shoji MP (Exco Member)
Councillor Zungu MPL (Exco Member)

Councillors

Councillor Caluza B
Councillor Caluza N
Councillor Doncabe KS
Councillor Gwabe CS
Councillor Hlongwa M
Councillor Hlongwa PA
Councillor Khuzwayo M
Councillor Khuzwayo T
Councillor Lushaba S
Councillor Luthuli MZ
Councillor Maluleka SP
Councillor Mbambo OJ
Councillor Mbayi TM
Councillor Mbele BI
Councillor Mbhele KBM
Councillor Mbuto N
Councillor Mdletshe MS
Councillor Mhlangu NE
Councillor Mkhize MJ
Councillor Mqadi MR
Councillor Msomi DK
Councillor Ngcobo LMR
Councillor Peters TL
Councillor Radebe SP
Councillor Shezi CL
Councillor Shoji NB
Councillor Shoji Z
Councillor Sikhosana B
Councillor Zindela AE

Accounting Officer

Ms NC Mgijima

Registered office

Sipofu Road
Mathulini Tribal Authority
4220

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

General Information

| | |
|-------------------------|---|
| Business address | Sipofu Road Mathulini Tribal Authority 4220 |
| Postal address | P.O. Box 561 Hibberdene 4220 |
| Bankers | ABSA Bank Limited |
| Auditors | Auditor General South Africa Registered Auditors |

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Index

The reports and statements set out below comprise the annual financial statements presented to the Council:

| Index | Page |
|--|-------------|
| Accounting Officer's Responsibilities and Approval | 4 |
| Statement of Financial Position | 5 |
| Statement of Changes in Net Assets | 7 |
| Statement of Financial Performance | 6 |
| Cash Flow Statement | 8 |
| Statement of Comparison of Budget and Actual Amounts | 9 - 10 |
| Appropriation Statement | 11 |
| Accounting Policies | 11 - 19 |
| Notes to the Annual Financial Statements | 20 - 41 |

Abbreviations

| | |
|-------|--|
| VAT | Value Added Tax |
| SDL | Skills Development Levy |
| GRAP | Generally Recognised Accounting Practice |
| GIS | Geographical Information Systems |
| COGTA | Department of Cooperative Governance and Traditional Affairs |
| IAS | International Accounting Standards |
| DORA | Division of Revenue Act |
| ME's | Municipal Entities |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant (Previously CMIP) |
| UIF | Unemployment Insurance Fund |
| PAYE | Pay As You Earn |
| MSIG | Municipal Systems Improvement Grant |

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is substantially dependent on the grant allocations through the Division of revenue act (Dora) for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Umzumbe Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the Accounting Officer is primarily responsible for the financial affairs of the municipality, she is supported by the municipality's Chief Financial Officer.

The annual financial statements set out on pages 5 to 41, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2015 and were signed on its behalf by the accounting officer:

Ms NC Mgijima
Municipal Manager

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Statement of Financial Position as at 30 June 2015

| Figures in Rand | Note(s) | 2015 | 2014 Restated* |
|--|---------|--------------------|--------------------|
| Current Assets | | | |
| Receivables from exchange transactions | 4 | 83 328 | 96 365 |
| VAT receivable | 5 | 7 484 687 | 6 517 221 |
| Trade and other receivables from non-exchange transactions | 6 | 4 485 662 | 3 176 419 |
| Cash and Cash Equivalents | 7 | 110 413 313 | 91 786 002 |
| | | 122 466 990 | 101 576 007 |
| Non-Current Assets | | | |
| Property, plant and equipment | 2 | 252 263 885 | 194 866 712 |
| Intangible Assets | 3 | 455 710 | 183 296 |
| | | 252 719 595 | 195 050 008 |
| Total Assets | | 375 186 585 | 296 626 015 |
| Liabilities | | | |
| Current Liabilities | | | |
| Operating lease liability | 10 | 17 569 | 9 464 |
| Trade and Other Payables | 11 | 11 952 106 | 11 352 664 |
| Unspent Conditional Grants and Receipts | 8 | 8 492 304 | 7 701 559 |
| Provisions | 9 | 3 237 057 | 2 730 665 |
| | | 23 699 036 | 21 794 352 |
| Non-Current Liabilities | | | |
| Provisions | 9 | 642 000 | 509 000 |
| Total Liabilities | | 24 341 036 | 22 303 352 |
| Net Assets | | 350 845 549 | 274 322 663 |
| Accumulated Surplus | | 350 845 549 | 274 322 663 |

* See Note

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Statement of Financial Performance

| Figures in Rand | Note(s) | 2015 | 2014 Restated* |
|--|---------|--------------------|--------------------|
| Revenue | | | |
| Other income | 15 | 1 996 815 | 445 113 |
| Interest received - investment | | 6 429 747 | 4 503 583 |
| Property rates | 12 | 4 975 846 | 4 977 152 |
| Government grants & subsidies | 13 | 179 053 070 | 138 242 006 |
| Total revenue | | 192 455 478 | 148 167 854 |
| Expenditure | | | |
| Employee Related Costs | 17 | 32 945 237 | 26 538 744 |
| Remuneration of Councillors | 18 | 12 183 764 | 11 386 533 |
| Depreciation Amortisation and Impairment | 20 | 15 844 824 | 11 197 883 |
| Finance costs | | 46 000 | 37 000 |
| Debt Impairment | 19 | 395 705 | 397 010 |
| Repairs and Maintenance | | 2 204 780 | 7 750 304 |
| Community Participation | | 2 149 652 | 1 132 308 |
| General Expenses | 16 | 47 275 989 | 38 594 530 |
| Total expenditure | | 113 045 951 | 97 034 312 |
| Operating surplus | | 79 409 527 | 51 133 542 |
| Loss on disposal of assets | | (2 886 641) | (1 348 391) |
| Surplus for the year | | 76 522 886 | 49 785 151 |

* See Note

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Statement of Changes in Net Assets

| Figures in Rand | Accumulated Surplus | Total net assets |
|---|------------------------|---------------------|
| Opening balance as previously reported | 222 718 497 | 222 718 497 |
| Adjustments | | |
| Correction of errors | 1 819 015 | 1 819 015 |
| Balance at 01 July 2013 as restated* | 224 537 512 | 224 537 512 |
| Changes in net assets | | |
| Surplus for the year | 49 785 151 | 49 785 151 |
| Total changes | 49 785 151 | 49 785 151 |
| Restated Balance at 30 June 2014 | 274 322 663 | 274 322 663 |
| Changes in net assets | | |
| Surplus for the year | 76 522 886 | 76 522 886 |
| Total changes | 76 522 886 | 76 522 886 |
| Balance at 30 June 2015 | 350 845 549 | 350 845 549 |
| Note(s) | | |

* See Note

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Cash Flow Statement

| Figures in Rand | Note(s) | 2015 | 2014 Restated* |
|---|---------|----------------------------|----------------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Receipts from Customers | | 3 296 330 | 2 652 128 |
| Grants | | 179 843 916 | 133 820 040 |
| Interest income | | 6 429 747 | 4 503 583 |
| | | <u>189 569 993</u> | <u>140 975 751</u> |
| Payments | | | |
| Finance costs | | (46 000) | (37 000) |
| Cash Paid to Suppliers and Employees | | (95 566 468) | (85 034 029) |
| | | <u>(95 612 468)</u> | <u>(85 071 029)</u> |
| Net cash flows from operating activities | 22 | <u>93 957 525</u> | <u>55 904 722</u> |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 2 | (75 182 925) | (42 464 760) |
| Proceeds from sale of property, plant and equipment | 2 | 212 664 | 915 003 |
| Purchase of other intangible assets | 3 | (359 953) | (126 441) |
| Net cash flows from investing activities | | <u>(75 330 214)</u> | <u>(41 676 198)</u> |
| Net increase/(decrease) in cash and cash equivalents | | 18 627 311 | 14 228 524 |
| Cash and cash equivalents at the beginning of the year | | 91 786 002 | 77 557 478 |
| Cash and cash equivalents at the end of the year | 7 | <u>110 413 313</u> | <u>91 786 002</u> |

* See Note

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|--------------------|-------------|--------------|--|---|-----------|
|--|--------------------|-------------|--------------|--|---|-----------|

Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

| | | | | | |
|---|------------------|-------------------|-------------------|------------------|---------------------|
| Other income | 4 545 385 | 15 006 106 | 19 551 491 | 1 996 815 | (17 554 676) |
| Interest Earned - External Investments | 3 200 000 | 1 250 000 | 4 450 000 | 6 429 747 | 1 979 747 |
| Total revenue from exchange transactions | 7 745 385 | 16 256 106 | 24 001 491 | 8 426 562 | (15 574 929) |

Revenue from non-exchange transactions

Taxation revenue

| | | | | | |
|----------------|-----------|---|------------------|-----------|----------------|
| Property rates | 4 157 557 | - | 4 157 557 | 4 975 846 | 818 289 |
|----------------|-----------|---|------------------|-----------|----------------|

Transfer revenue

| | | | | | |
|-------------------------------|-------------|------------|--------------------|-------------|--------------------|
| Government grants & subsidies | 155 194 000 | 32 176 558 | 187 370 558 | 179 053 070 | (8 317 488) |
|-------------------------------|-------------|------------|--------------------|-------------|--------------------|

| | | | | | |
|---|--------------------|-------------------|--------------------|--------------------|--------------------|
| Total revenue from non-exchange transactions | 159 351 557 | 32 176 558 | 191 528 115 | 184 028 916 | (7 499 199) |
|---|--------------------|-------------------|--------------------|--------------------|--------------------|

| | | | | | |
|----------------------|--------------------|-------------------|--------------------|--------------------|---------------------|
| Total revenue | 167 096 942 | 48 432 664 | 215 529 606 | 192 455 478 | (23 074 128) |
|----------------------|--------------------|-------------------|--------------------|--------------------|---------------------|

Expenditure

| | | | | | |
|----------------------|--------------|---|---------------------|--------------|------------------|
| Salary Related Costs | (47 691 558) | - | (47 691 558) | (45 129 001) | 2 562 557 |
|----------------------|--------------|---|---------------------|--------------|------------------|

| | | | | | |
|-------------------------------------|--------------|-------------|---------------------|--------------|------------------|
| Repairs, maintenance & depreciation | (18 570 000) | (3 405 584) | (21 975 584) | (18 049 604) | 3 925 980 |
|-------------------------------------|--------------|-------------|---------------------|--------------|------------------|

| | | | | | |
|-------------------------|-------------|-----------|--------------------|-------------|---------------|
| Community Participation | (1 900 000) | (264 943) | (2 164 943) | (2 149 652) | 15 291 |
|-------------------------|-------------|-----------|--------------------|-------------|---------------|

| | | | | | |
|----------------------------|--------------|-------------|---------------------|--------------|------------------|
| General and Other Expenses | (43 408 000) | (7 576 665) | (50 984 665) | (47 717 694) | 3 266 971 |
|----------------------------|--------------|-------------|---------------------|--------------|------------------|

| | | | | | |
|--------------------------|----------------------|---------------------|----------------------|----------------------|------------------|
| Total expenditure | (111 569 558) | (11 247 192) | (122 816 750) | (113 045 951) | 9 770 799 |
|--------------------------|----------------------|---------------------|----------------------|----------------------|------------------|

| | | | | | |
|--------------------------|-------------------|-------------------|-------------------|-------------------|---------------------|
| Operating surplus | 55 527 384 | 37 185 472 | 92 712 856 | 79 409 527 | (13 303 329) |
|--------------------------|-------------------|-------------------|-------------------|-------------------|---------------------|

| | | | | | |
|----------------------------|---|---|---|-------------|--------------------|
| Loss on disposal of assets | - | - | - | (2 886 641) | (2 886 641) |
|----------------------------|---|---|---|-------------|--------------------|

| | | | | | |
|----------------------------|-------------------|-------------------|-------------------|-------------------|---------------------|
| Surplus / (Deficit) | 55 527 384 | 37 185 472 | 92 712 856 | 76 522 886 | (16 189 970) |
|----------------------------|-------------------|-------------------|-------------------|-------------------|---------------------|

Capital

| | | | | | |
|---------------------|--------------|--------------|---------------------|--------------|-------------------|
| Capital Expenditure | (55 527 384) | (37 185 472) | (92 712 856) | (75 542 878) | 17 169 978 |
|---------------------|--------------|--------------|---------------------|--------------|-------------------|

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|--------------------|-------------|--------------|--|---|-----------|
|--|--------------------|-------------|--------------|--|---|-----------|

Figures in Rand

Cash Flow Statement

Cash flows from operating activities

| | | | | | | |
|---|------------|------------|-------------------|------------|------------------|--|
| Net cash (from) from operating activities | 55 527 384 | 37 185 472 | 92 712 856 | 93 957 525 | 1 244 669 | |
|---|------------|------------|-------------------|------------|------------------|--|

Cash flows from investing activities

| | | | | | | |
|---|--------------|--------------|---------------------|--------------|-------------------|--|
| Net cash from (used) investing activities | (55 527 384) | (37 185 472) | (92 712 856) | (75 330 214) | 17 382 642 | |
|---|--------------|--------------|---------------------|--------------|-------------------|--|

| | | | | | | |
|--|---|---|---|------------|-------------------|--|
| Net increase/(decrease) in cash and cash equivalents | - | - | - | 18 627 311 | 18 627 311 | |
|--|---|---|---|------------|-------------------|--|

| | | | | | | |
|--|---|---|---|------------|-------------------|--|
| Cash and cash equivalents at the beginning of the year | - | - | - | 91 786 002 | 91 786 002 | |
|--|---|---|---|------------|-------------------|--|

| | | | | | | |
|---|---|---|---|--------------------|--------------------|--|
| Cash and cash equivalents at the end of the year | - | - | - | 110 413 313 | 110 413 313 | |
|---|---|---|---|--------------------|--------------------|--|

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

The accounting policies on pages 11 to 19 and the notes on pages 20 to 41 form an integral part of the annual financial statements.

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

GRAP - 1 Presentation of Financial Statements

GRAP - 2 Cashflow Statements

GRAP - 3 Accounting Policies, Changes in Accounting Estimates and Errors

GRAP - 9 Revenue from Exchange Transactions

GRAP - 13 Leases

GRAP - 17 Property Plant and Equipment

GRAP - 19 Provisions, Contingent Liabilities and Contingent Assets

GRAP - 26 Impairment of Cash Generating Assets

GRAP - 31 Intangible Assets

GRAP - 14 Events after the reporting date

GRAP - 24 Presentation of Budget Information in Financial Statements

GRAP - 23 Revenue from Non-exchange Transactions

GRAP - 25 Employee Benefits

GRAP - 104 Financial Instruments

The following GRAP standards have been issued but are not yet effective

At the date of authorisation of these Annual Financial Statements, the following standards and interpretations were in issue but not yet effective and have not been early adopted by the municipality:.

GRAP 109 - Accounting by Principals and Agents

GRAP 20 - Related party disclosures

GRAP 32 Service concession agreements : Grantor

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

GRAP 108 Statutory Receivables

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction or at a nominal cost, its cost is its fair value as at date of acquisition. Where the actual acquisition date or period in respect of assets can not be determined with accuracy, the assets are recognised at fair value on the date that they were identified.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

| Item | Average useful life (Years) |
|----------------------|-----------------------------|
| Solid Waste Disposal | 5 - 55 |
| Dwellings | 5 - 30 |
| Computer Equipment | 5 - 10 |
| Electricity | 3 - 80 |

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.2 Property, plant and equipment (continued)

| | |
|------------------------------|---------|
| Furniture & Office Equipment | 3 - 10 |
| Non Residential Dwellings | 10 - 30 |
| Transport Assets | 04 - 20 |
| Machinery & Equipment | 2 - 20 |
| Roads | 3 - 100 |

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate. The depreciation formula changes when any of these parameters (remaining useful life, residual value, impairment) are changed or adjusted.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.3 Intangible Assets

An intangible asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.3 Intangible Assets (continued)

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

| Item | Useful life |
|--------------------------|-------------|
| Computer software, other | 3 - 5 years |

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.4 Financial Instruments

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank Overdraft and Borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Receivables from non exchange transactions

Trade receivables from non-exchange transactions are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Where the initial credit period granted is not in line with practices or legislation in the public sector, the effect of discounting is considered if it is material.

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.5 Leases (continued)

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Income for leases is disclosed under revenue in statement of financial performance.

Operating Leases - Lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.6 Employee Benefits

Short-Term Employee Benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined Contribution Plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

The Municipality's employees are members of the Kwazulu - Natal Joint Municipal Pension Fund (a State and Multi Employer Defined Benefit Plan) and Kwazulu Natal Joint Provident Fund (a State and Multi Employer Defined Contribution

Plan). Along with other Municipalities in the province of Kwazulu Natal, uMzumbe participates in a multi employer defined plan.

As the plan exposes the participating entities to actuarial risks associated with the current and former employees of other municipalities participating in the plan there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual municipalities participating in the plan. uMzumbe therefore accounts for the plan as if it were defined contribution plan.

Long Service Awards

The municipality has an obligation to provide Long Service Awards Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.6 Employee Benefits (continued)

Pension, Provident, Retirement Benefits and Group Life Scheme

The municipality provides retirement benefits for its employees in the form of both defined benefit and defined contribution plans. The municipality is no longer providing retirement benefits for the Councillors as they are now getting a total cost to company package.

A defined benefit plan is a plan that defines an amount of benefit that an employee will receive on retirement. A defined contribution plan is a plan under which the municipality pays a fixed contribution into a separate entity. The municipality has no legal or constructive obligation to pay further contribution if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior period.

The contributions to fund obligations for the payment of retirement benefits are charged against the revenue in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued triennially on the projected unit credit method basis. Deficits identified are recognized as a liability and are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities.

1.7 Provisions and Contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Contingent assets and contingent liabilities are not recognised but disclosed as a note in the financial statements.

1.8 Revenue

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

Measurement

Revenue is measured at the fair value of the consideration received or receivable.

Revenue from unconditional grants are recognised immediately upon receipt.

Revenue from tender sales is recognised when the bidders have actually bought the tender documents and cash has been received.

Rates

Revenue from rates is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.8 Revenue (continued)

- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Conditional Grants and Receipts

Conditional grants, donations and funding are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If grants are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.9 Comparative Figures

Where materially necessary, comparative figures have been reclassified and restated to conform to changes in presentation in the current year.

1.10 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.11 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.12 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.13 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.14 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

1.15 Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

1.16 Value Added Tax (VAT)

The municipality accounts for Value Added Tax on the cash basis with respect to the South African Revenue Service

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

1.17 Commitments

Commitments may be referred to as the intention to commit to an outflow from the municipality of resources embodying economic benefits.

Generally, a commitment arises when a decision is made to incur a liability in the form of a purchase contract (or similar documentation). Such a contractual commitment would be accompanied by, but not limited to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g. a quote, and conditions to be satisfied to establish an obligation e.g. delivery schedules. In determining the value of commitments, the Municipality may utilise savings among projects. These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement.

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

2015

2014

2. Property, plant and equipment

| | 2015 | | | 2014 | | |
|--------------------------------|--------------------|---|--------------------|--------------------|---|--------------------|
| | Cost | Accumulated depreciation and accumulated impairment | Carrying value | Cost | Accumulated depreciation and accumulated impairment | Carrying value |
| Machinery Equipment | 14 503 717 | (1 597 968) | 12 905 749 | 9 309 064 | (1 133 919) | 8 175 145 |
| Furniture and Office Equipment | 3 570 223 | (1 972 458) | 1 597 765 | 3 004 326 | (1 790 397) | 1 213 929 |
| Transport Assets | 6 244 733 | (1 509 233) | 4 735 500 | 3 699 829 | (1 087 845) | 2 611 984 |
| Computer Equipment | 2 121 322 | (1 303 511) | 817 811 | 1 933 120 | (1 089 430) | 843 690 |
| Solid Waste Disposal | 265 544 | (51 239) | 214 305 | 234 044 | (31 393) | 202 651 |
| Dwellings | 942 676 | (409 377) | 533 299 | 942 676 | (308 378) | 634 298 |
| Non Residential Dwellings | 55 699 100 | (16 364 887) | 39 334 213 | 58 677 633 | (14 408 474) | 44 269 159 |
| Roads | 149 854 723 | (34 793 450) | 115 061 273 | 118 145 762 | (24 356 983) | 93 788 779 |
| Assets under construction | 77 063 970 | - | 77 063 970 | 43 127 077 | - | 43 127 077 |
| Total | 310 266 008 | (58 002 123) | 252 263 885 | 239 073 531 | (44 206 819) | 194 866 712 |

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

2. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

| | Opening balance | Additions | Disposals | Donated | Transfers | Depreciation | Impairment loss | Total |
|--------------------------------|--------------------|-------------------|--------------------|------------------|--------------|---------------------|--------------------|--------------------|
| Machinery Equipment | 8 175 145 | 4 872 738 | (75 278) | 691 234 | - | (729 201) | (28 889) | 12 905 749 |
| Furniture and Office Equipment | 1 213 929 | 725 083 | (15 884) | - | - | (319 767) | (5 596) | 1 597 765 |
| Transport Assets | 2 611 984 | 2 512 879 | (166 718) | 379 606 | - | (579 107) | (23 144) | 4 735 500 |
| Computer Equipment | 843 690 | 244 197 | (2 925) | - | - | (264 391) | (2 760) | 817 811 |
| Solid Waste Disposal | 202 651 | 31 500 | - | - | - | (19 846) | - | 214 305 |
| Dwellings | 634 298 | - | - | - | - | (100 999) | - | 533 299 |
| Assets Under Construction | 43 127 077 | 66 730 728 | - | - | (32 793 835) | - | - | 77 063 970 |
| Non Residential Dwellings | 44 269 159 | 15 000 | (2 726 425) | - | 734 101 | (2 551 810) | (405 812) | 39 334 213 |
| Roads | 93 788 779 | 50 800 | (112 003) | - | 32 059 734 | (10 549 414) | (176 623) | 115 061 273 |
| | 194 866 712 | 75 182 925 | (3 099 233) | 1 070 840 | - | (15 114 535) | (642 824) | 252 263 885 |

Assets under construction comprises:

| | Cost | Additions | Transfers | Total |
|-----------|-------------------|-------------------|---------------------|-------------------|
| Buildings | 4 822 273 | 33 869 953 | (734 101) | 37 958 125 |
| Roads | 38 304 804 | 32 860 775 | (32 059 734) | 39 105 845 |
| | 43 127 077 | 66 730 728 | (32 793 835) | 77 063 970 |

Impairment of Assets

Impairment of the assets above are as a result of a conditional assessment performed during the physical verification of assets exercise.

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

2. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

| | Opening balance | Additions | Disposals | Transfers received | Fair value adjustments | Transfers | Depreciation | Impairment loss | Total |
|--------------------------------|--------------------|-------------------|--------------------|-----------------------|---------------------------|--------------|---------------------|--------------------|--------------------|
| Machinery Equipment | 4 233 024 | 5 528 129 | (1 123 907) | 3 406 | 5 994 | - | (417 157) | (54 344) | 8 175 145 |
| Furniture and Office Equipment | 960 900 | 521 572 | (32 562) | 15 780 | 18 598 | - | (270 359) | - | 1 213 929 |
| Transport Assets | 2 422 150 | 963 950 | (352 933) | - | - | - | (377 106) | (44 077) | 2 611 984 |
| Computer Equipment | 635 648 | 461 857 | (38 147) | 1 223 | - | - | (216 891) | - | 843 690 |
| Solid Waste Disposal | 217 499 | - | - | - | - | - | (14 848) | - | 202 651 |
| Dwellings | 587 987 | 135 900 | - | - | - | - | (89 589) | - | 634 298 |
| Assets Under construction | 51 081 837 | 34 853 352 | - | - | - | (42 808 112) | - | - | 43 127 077 |
| Non ResidentialDwellings | 38 833 407 | - | (22 698) | - | - | 7 667 826 | (2 087 817) | (121 559) | 44 269 159 |
| Roads | 66 801 206 | - | (690 080) | - | - | 35 140 286 | (7 462 634) | - | 93 788 779 |
| | 165 773 658 | 42 464 760 | (2 260 327) | 20 409 | 24 592 | - | (10 936 401) | (219 980) | 194 866 712 |

Impairment of assets

Impairment of the assets above are as a result of a conditional assessment performed during the physical verification of assets exercise.

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

| | | |
|-----------------|------|------|
| Figures in Rand | 2015 | 2014 |
|-----------------|------|------|

3. Intangible Assets

| | 2015 | | | 2014 | | |
|--------------------------|---------|---|----------------|---------|---|----------------|
| | Cost | Accumulated amortisation and accumulated impairment | Carrying value | Cost | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software, other | 703 677 | (247 967) | 455 710 | 346 180 | (162 884) | 183 296 |

Reconciliation of intangible assets - 2015

| | Opening balance | Additions | Disposals | Amortisation | Total |
|-------------------|-----------------|-----------|-----------|--------------|---------|
| Computer software | 183 296 | 359 953 | (72) | (87 467) | 455 710 |

Reconciliation of intangible assets - 2014

| | Opening balance | Additions | Disposals | Amortisation | Total |
|-------------------|-----------------|-----------|-----------|--------------|---------|
| Computer software | 101 424 | 126 441 | (3 067) | (41 502) | 183 296 |

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|-----------------|------|------|
|-----------------|------|------|

4. Receivables from exchange transactions

| | | |
|--|---------------|---------------|
| Sundry debtors | 70 343 | 91 354 |
| Interest | 12 985 | 5 011 |
| Rei Management | 2 379 003 | 2 379 003 |
| Rei Management (Provision for Bad debts) | (2 379 003) | (2 379 003) |
| | 83 328 | 96 365 |

5. VAT receivable

| | | |
|-----------------|-----------|-----------|
| Value Added Tax | 7 484 687 | 6 517 221 |
|-----------------|-----------|-----------|

The municipality is predominantly funded by Government Grants which are zero rated. Therefore VAT input has been claimed which has not been received as yet.

6. Trade and other receivables from non exchange transactions

Gross balances

| | | |
|-------|-----------|-----------|
| Rates | 6 222 642 | 4 517 694 |
|-------|-----------|-----------|

Less: Allowance for impairment

| | | |
|-------|-------------|-------------|
| Rates | (1 736 980) | (1 341 275) |
|-------|-------------|-------------|

Net balance

| | | |
|-------|-----------|-----------|
| Rates | 4 485 662 | 3 176 419 |
|-------|-----------|-----------|

Rates

| | | |
|----------------|-----------|-----------|
| 121 - 365 days | 4 485 662 | 3 176 419 |
|----------------|-----------|-----------|

Reconciliation of allowance for impairment

| | | |
|----------------------------------|--------------------|--------------------|
| Balance at beginning of the year | (1 341 275) | (944 265) |
| Contributions to allowance | (395 705) | (397 010) |
| | (1 736 980) | (1 341 275) |

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|-----------------|------|------|
|-----------------|------|------|

7. Cash and Cash Equivalents

Cash and cash equivalents consist of:

| | | |
|---------------------|--------------------|-------------------|
| Cash on hand | 126 | - |
| Bank balances | 100 848 996 | 82 221 589 |
| Short-term deposits | 9 564 191 | 9 564 413 |
| | 110 413 313 | 91 786 002 |

The short-term deposits refer to investments held in First National Bank Ltd in Port Shepstone.

The municipality had the following bank accounts

| Account number / description | Bank statement balances | | Cash book balances | |
|--|-------------------------|-------------------|--------------------|-------------------|
| | 30 June 2015 | 30 June 2014 | 30 June 2015 | 30 June 2014 |
| ABSA BANK LTD - Port Shepstone - 40-7276-2850 | 100 165 123 | 82 666 837 | 100 162 151 | 81 564 462 |
| ABSA Housing Account - Port Shepstone - 40-7278-0715 | 558 677 | 533 918 | 558 677 | 533 918 |
| ABSA MIG Account - Port Shepstone 40 - 7277-6506 | 128 168 | 123 210 | 128 168 | 123 209 |
| FNB - Money market account | 3 880 505 | 3 880 727 | 3 880 505 | 3 880 727 |
| FNB 32 day fixed deposit account | 5 683 686 | 5 683 686 | 5 683 686 | 5 683 686 |
| Total | 110 416 159 | 92 888 378 | 110 413 187 | 91 786 002 |

8. Unspent Conditional Grants and Receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

| | | |
|--------------------------------|------------------|------------------|
| Project Consolidate | 99 885 | 99 885 |
| GIS grant | 7 985 | 7 985 |
| Low cost housing grant | 538 858 | 533 953 |
| Ntelezi Msane | - | 578 620 |
| Municipal Infrastructure Grant | - | 249 496 |
| Disaster Management Grant | 4 804 470 | 730 839 |
| KZN Sports | 1 974 171 | 475 585 |
| Land Use Scheme | 347 190 | - |
| National Electrification | 719 745 | 5 025 196 |
| | 8 492 304 | 7 701 559 |

Movement during the year

| | | |
|--------------------------------------|------------------|------------------|
| Balance at the beginning of the year | 7 701 558 | 12 123 525 |
| Additions during the year | 74 523 816 | 39 275 040 |
| Income recognition during the year | (73 733 070) | (43 697 006) |
| | 8 492 304 | 7 701 559 |

See Note13 for reconciliation of grants from National/Provincial Government.

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|-----------------|------|------|
|-----------------|------|------|

9. Provisions

Reconciliation of provisions - 2015

| | Opening Balance | Additions | Utilised during the year | Actuarial Loss (Gain) | Current Service cost | Finance Cost | Total |
|---------------------|------------------|------------------|--------------------------|-----------------------|----------------------|---------------|------------------|
| Provision for Bonus | 680 206 | 898 919 | (680 206) | - | - | - | 898 919 |
| Long Service Awards | 541 000 | - | (30 346) | (12 654) | 107 000 | 46 000 | 651 000 |
| Leave Pay | 2 018 459 | 760 523 | (449 844) | - | - | - | 2 329 138 |
| | 3 239 665 | 1 659 442 | (1 160 396) | (12 654) | 107 000 | 46 000 | 3 879 057 |

Reconciliation of provisions - 2014

| | Opening Balance | Additions | Utilised during the year | Actuarial Loss (Gain) | Current Service Cost | Finance Cost | Total |
|---------------------|------------------|------------------|--------------------------|-----------------------|----------------------|---------------|------------------|
| Provision for Bonus | 634 290 | 680 206 | (634 290) | - | - | - | 680 206 |
| Long Service Awards | 455 000 | - | (30 474) | (13 526) | 93 000 | 37 000 | 541 000 |
| Leave Pay | 1 915 269 | 464 813 | (361 623) | - | - | - | 2 018 459 |
| | 3 004 559 | 1 145 019 | (1 026 387) | (13 526) | 93 000 | 37 000 | 3 239 665 |

| | | |
|-------------------------|------------------|------------------|
| Non-current liabilities | 642 000 | 509 000 |
| Current liabilities | 3 237 057 | 2 730 665 |
| | 3 879 057 | 3 239 665 |

Provision for Long Service Awards

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The provision represents an estimation of the awards to which employees in the service of the Municipality at 30 June 2015 may become entitled to in future, based on an actuarial valuation performed at that date.

The most recent actuarial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2015 by a member of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

| | | |
|--------------------------------|-------|-------|
| Discount Rate | 8,58% | 7,96% |
| CPI (Consumer Price Inflation) | 6,90% | 6,33% |
| Normal Salary Increase Rate | 7,90% | 7,33% |
| Net Effective Discount Rate | 0,63% | 0,59% |

The effect of a 1 % increase movement in the assumed rate of salary inflation is as follows:

| | | |
|-------------------------|----------------|----------------|
| Total Accrued Liability | 721 000 | 597 000 |
| Current Service Cost | 151 000 | 121 000 |
| Interest Cost | 72 000 | 51 000 |
| | 944 000 | 769 000 |

The effect of a 1 % decrease movement in the assumed rate of salary inflation is as follows:

| | | |
|-------------------------|----------------|----------------|
| Total Accrued Liability | 591 000 | 491 000 |
| Current Service Cost | 119 000 | 59 000 |
| Interest Cost | 59 000 | 42 000 |
| | 769 000 | 592 000 |

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|-----------------|------|------|
|-----------------|------|------|

10. Operating lease asset (liability)

| | | |
|---------------------|-----------------|----------------|
| Current liabilities | (17 569) | (9 464) |
| | (17 569) | (9 464) |

Office equipment was leased by the Municipality. Operating lease payments are recognised as an expense on a straight line basis over the lease term.

The municipality entered into a long term lease agreement with Ingonyama Trust for the lease of land for the construction of office buildings. The operating lease payments are recognised as an expense on a straight line basis over the lease term.

Minimum Lease Payments due

| | | |
|--|----------------|----------------|
| Within one year | 70 120 | 69 007 |
| In second to fifth year inclusive | 50 456 | 57 506 |
| Over five years and until the end of the lease | 432 115 | - |
| | 552 691 | 126 513 |

11. Trade and Other Payables

| | | |
|-----------------|-------------------|-------------------|
| Trade payables | 1 728 521 | 4 342 305 |
| Other payables | 154 131 | 92 361 |
| Rental Deposits | 20 000 | 20 000 |
| Retention | 10 049 454 | 6 897 998 |
| | 11 952 106 | 11 352 664 |

12. Property rates

Rates

| | | |
|-----------------------|-----------|-----------|
| Property Rates Billed | 4 975 846 | 4 977 152 |
|-----------------------|-----------|-----------|

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|--|--------------------|--------------------|
| 13. Government grants and subsidies | | |
| Grant Realised | | |
| Equitable share | 105 320 000 | 94 545 000 |
| Municipal Systems Improvement Grant | 934 000 | 890 000 |
| Low Cost Housing Grant | 19 911 | - |
| Financial Management Grant | 1 800 000 | 1 650 000 |
| Disaster Management Grant | 5 926 369 | 6 698 126 |
| Ntelezi Msane | 4 578 620 | 421 380 |
| Municipal Infrastructure Grant | 48 619 496 | 30 939 504 |
| Expanded Public Works Program | 1 020 000 | - |
| Land Use Scheme | 152 810 | - |
| Intergrated National Electrification Programme | 10 305 450 | 2 934 531 |
| KZN Sports Grant | 376 414 | 163 465 |
| | 179 053 070 | 138 242 006 |
| | 179 053 070 | 138 242 006 |
| Project Consolidate | | |
| Balance unspent at beginning of year | 99 885 | 99 885 |
| Municipal Systems Improvement Grant | | |
| Current-year receipts | 934 000 | 890 000 |
| Conditions met - transferred to revenue | (934 000) | (890 000) |
| | - | - |
| GIS Grant | | |
| Balance unspent at beginning of year | 7 985 | 7 985 |
| Low Cost Housing Grant | | |
| Balance unspent at beginning of year | 533 953 | 512 913 |
| Current-year receipts | 24 815 | 21 040 |
| Conditions met - transferred to revenue | (19 911) | - |
| | 538 857 | 533 953 |
| Conditions still to be met - remain liabilities (see note 8) | | |
| Ntelezi Msane Grant | | |
| Balance unspent at beginning of year | 578 620 | 1 000 000 |
| Current-year receipts | 4 000 000 | - |
| Conditions met - transferred to revenue | (4 578 620) | (421 380) |
| | - | 578 620 |
| Financial Management Grant | | |
| Current-year receipts | 1 800 000 | 1 650 000 |
| Conditions met - transferred to revenue | (1 800 000) | (1 650 000) |
| | - | - |

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|---|------------------|------------------|
| 13. Government grants and subsidies (continued) | | |
| Municipal Infrastructure Grant | | |
| Balance unspent at beginning of year | 249 496 | - |
| Current-year receipts | 48 370 000 | 31 189 000 |
| Conditions met - transferred to revenue | (48 619 496) | (30 939 504) |
| | - | 249 496 |
| Expanded Public Works Program | | |
| Current-year receipts | 1 020 000 | - |
| Conditions met - transferred to revenue | (1 020 000) | - |
| | - | - |
| Conditions still to be met - remain liabilities (see note 8) | | |
| Disaster Management Grant | | |
| Balance unspent at beginning of year | 730 839 | 7 428 965 |
| Current-year receipts | 10 000 000 | - |
| Conditions met - transferred to revenue | (5 926 369) | (6 698 126) |
| | 4 804 470 | 730 839 |
| Conditions still to be met - remain liabilities (see note 8) | | |
| KZN Sports | | |
| Balance unspent at beginning of year | 475 585 | 114 050 |
| Current-year receipts | 1 875 000 | 525 000 |
| Conditions met - transferred to revenue | (376 414) | (163 465) |
| | 1 974 171 | 475 585 |
| Conditions still to be met - remain liabilities (see note 8). | | |
| Scheme and Land Support Project | | |
| Current-year receipts | 500 000 | - |
| Conditions met - transferred to revenue | (152 810) | - |
| | 347 190 | - |
| Conditions still to be met - remain liabilities (see note 8). | | |
| National Electrification Grant | | |
| Balance unspent at beginning of year | 5 025 196 | 2 959 727 |
| Current-year receipts | 6 000 000 | 5 000 000 |
| Conditions met - transferred to revenue | (10 305 451) | (2 934 531) |
| | 719 745 | 5 025 196 |
| Conditions still to be met - remain liabilities (see note 8). | | |
| 14. Investment revenue | | |
| Interest revenue | | |
| Interest Received on Investments | 6 429 747 | 4 503 583 |

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|---|-------------------|-------------------|
| 15. Other income | | |
| Tender Income | 320 754 | 188 412 |
| Sundry income | 1 676 061 | 256 701 |
| | 1 996 815 | 445 113 |
| 16. General expenses | | |
| Advertising | 592 341 | 425 327 |
| Auditors remuneration | 1 192 279 | 1 159 504 |
| Bank charges | 165 116 | 137 769 |
| Consulting and professional fees | 1 241 237 | 1 571 118 |
| Consumables | 264 973 | 182 147 |
| Functions and refreshments | 293 085 | 271 536 |
| Insurance | 592 803 | 511 027 |
| Bursaries | 497 480 | 452 145 |
| Conferences and seminars | 341 812 | 440 763 |
| IT expenses | 184 459 | 140 758 |
| Marketing | 370 831 | 314 275 |
| Motor vehicle expenses | 1 073 170 | 879 560 |
| Printing and stationery | 606 805 | 438 459 |
| Security (Guarding of municipal property) | 933 429 | 733 104 |
| Telephone and fax | 1 407 852 | 1 580 218 |
| Training | 862 153 | 448 094 |
| Subsistence and Travel | 2 077 863 | 1 458 805 |
| Electricity | 116 458 | 463 987 |
| Free basic services (Electricity) | 11 665 390 | 6 164 076 |
| Uniforms | 117 972 | 234 169 |
| Tourism development | 1 252 109 | 2 085 348 |
| Lease Rentals on Operating Lease | 232 829 | 189 543 |
| Project Expenditure | 16 758 500 | 11 354 553 |
| Other expenses | 4 435 043 | 6 958 245 |
| | 47 275 989 | 38 594 530 |

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|-----------------|------|------|
|-----------------|------|------|

17. Employee related costs

| | | |
|--|-------------------|-------------------|
| Basic Salary | 21 152 402 | 17 019 938 |
| Bonus | 2 055 827 | 1 660 181 |
| Medical aid - company contributions | 990 952 | 837 454 |
| Unemployment Insurance Fund | 151 964 | 122 283 |
| Skills Development Levy | 276 312 | 228 787 |
| Leave pay provision charge | 760 523 | 464 813 |
| Pension Contribution | 2 181 336 | 1 775 716 |
| Travel, motor car, accommodation, subsistence and other allowances | 4 284 136 | 3 626 553 |
| Overtime payments | 469 748 | 501 774 |
| Acting allowances | 155 953 | 113 387 |
| Other Salary costs | 466 084 | 187 858 |
| | 32 945 237 | 26 538 744 |

Remuneration of Municipal Manager

| | | |
|---------------------|------------------|------------------|
| Annual Remuneration | 768 800 | 674 390 |
| Car Allowance | 256 266 | 235 021 |
| Performance Bonus | 136 993 | 98 485 |
| Other | 40 120 | 44 327 |
| | 1 202 179 | 1 052 223 |

Remuneration of Chief Financial Officer

| | | |
|---------------------|------------------|------------------|
| Annual Remuneration | 667 884 | 585 867 |
| Car Allowance | 222 627 | 204 171 |
| Performance Bonuses | 128 165 | 119 780 |
| Leave Payout | - | 164 270 |
| Other | 34 945 | 43 261 |
| | 1 053 621 | 1 117 349 |

Remuneration Corporate Services Director

| | | |
|---------------------|----------------|----------------|
| Annual Remuneration | 624 662 | 547 953 |
| Car Allowance | 208 220 | 190 958 |
| Performance Bonuses | 111 309 | 124 029 |
| Acting Allowance | - | 15 387 |
| Other | 33 559 | 35 279 |
| | 977 750 | 913 606 |

Remuneration of Technical Services Director

| | | |
|---------------------|------------------|----------------|
| Annual Remuneration | 667 884 | 585 867 |
| Car Allowance | 222 627 | 204 171 |
| Performance Bonuses | 119 010 | 111 225 |
| Other | 34 854 | 39 900 |
| | 1 044 375 | 941 163 |

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|---|-------------------|-------------------|
| 17. Employee related costs (continued) | | |
| Remuneration of Social & Economic Development Director | | |
| Annual Remuneration | 464 120 | 547 953 |
| Car Allowance | 154 706 | 190 958 |
| Performance Bonuses | 77 060 | 80 021 |
| Other | 40 065 | 46 836 |
| Acting Allowance | 16 464 | - |
| Leave Payout | 143 879 | - |
| | 896 294 | 865 768 |
| 18. Remuneration of councillors | | |
| Mayor | 684 366 | 642 035 |
| Deputy Mayor | 617 621 | 605 474 |
| Speaker | 597 030 | 591 892 |
| Councillors | 10 284 747 | 9 547 132 |
| | 12 183 764 | 11 386 533 |
| 19. Debt impairment | | |
| Contributions to debt impairment provision | 395 705 | 397 010 |
| 20. Depreciation, amortisation and Impairment | | |
| Property, plant and equipment | 15 757 357 | 11 156 381 |
| Intangible assets | 87 467 | 41 502 |
| | 15 844 824 | 11 197 883 |
| 21. Auditors' remuneration | | |
| Fees | 1 192 279 | 1 159 504 |
| 22. Cash generated from operations | | |
| Surplus | 76 522 886 | 49 785 151 |
| Adjustments for: | | |
| Depreciation and amortisation | 15 844 824 | 11 197 883 |
| Loss on sale of assets | 2 886 641 | 1 348 391 |
| Debt impairment | 395 705 | 397 010 |
| Movement in operating lease accrual | 8 105 | 7 899 |
| Movements in provisions | 639 392 | 235 106 |
| Other non-cash items | (1 070 836) | (45 002) |
| Prior Year Adjustments | - | 1 819 014 |
| Changes in working capital: | | |
| Receivables from exchange transactions | 13 037 | (4 161) |
| Trade and other receivables from non exchange transactions | (1 704 948) | (2 326 087) |
| Trade and Other Payables | 599 440 | 2 701 754 |
| VAT | (967 466) | (4 790 270) |
| Unspent Conditional Grants and Receipts | 790 745 | (4 421 966) |
| | 93 957 525 | 55 904 722 |

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|---|--------------------|--------------------|
| 23. Commitments | | |
| Authorised capital expenditure | | |
| Approved and contracted for: | | |
| • Infrastructure | 38 920 823 | 14 698 136 |
| Approved but not yet contracted for: | | |
| • Infrastructure | 71 705 446 | 125 278 338 |
| Total capital commitments | | |
| Already contracted for but not provided for | 38 920 823 | 14 698 136 |
| Not yet contracted for and authorised by accounting officer | 71 705 446 | 125 278 338 |
| | 110 626 269 | 139 976 474 |

This committed expenditure relates to Infrastructure and will be financed by Government Grants.

24. Unauthorised expenditure

| | | |
|------------------------|------------------|------------------|
| Opening balance | 2 379 003 | 2 379 003 |
| Less: Amounts condoned | - | - |
| | 2 379 003 | 2 379 003 |

25. Fruitless and wasteful expenditure

| | | |
|--------------------------|----------|----------|
| Opening balance | - | 15 864 |
| Current year expenditure | 16 206 | 69 072 |
| Less: Amounts condoned | (16 206) | (84 936) |
| | - | - |

Incidents

- The municipality incurred fruitless and wasteful expenditure of R14 906 due to interest and penalties arising from late payments.
- The municipality incurred fruitless and wasteful expenditure of R1 300.00 in relation to traffic fines.

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|---|------|--------------|
| 26. Irregular expenditure | | |
| Opening balance | - | 7 241 157 |
| Add: Irregular Expenditure - current year | - | 19 408 291 |
| Less: Amounts condoned | - | (26 649 448) |
| | - | - |

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

27. Effects of correction of prior year errors on financial statements

Errors relating to the incorrect capturing of accruals were identified.

Opening balance for VAT in the prior year was adjusted due to claims from prior year.

Reclassification was done relating to a prior year debtor balance. The effects of the corrections are as follows:

| Statement of Financial Position | Note | As previously reported | Correction of errors | Reclassification | Total |
|--|----------|------------------------|----------------------|------------------|----------------------|
| Receivables from exchange transactions | 4 | 77 663 | - | 18 702 | 96 365 |
| VAT Receivable | 5 | 4 725 026 | 1 792 195 | - | 6 517 221 |
| Trade and Other Receivables from Non Exchange Transactions | 6 | 3 176 419 | - | - | 3 176 419 |
| Cash and Cash Equivalents | 7 | 91 786 002 | - | - | 91 786 002 |
| Property , Plant and Equipment | 2 | 194 866 712 | - | - | 194 866 712 |
| Intangible Assets | 3 | 183 296 | - | - | 183 296 |
| Total Assets | - | 294 815 118 | 1 792 195 | - | 296 626 015 |
| Operating Lease Liability | 10 | (9 464) | - | - | (9 464) |
| Trade and Other Payables | 11 | (11 436 688) | 102 725 | (18 702) | (1 352 663) |
| Unspent Conditional Grants and Receipts | 8 | (7 701 559) | - | - | (7 701 559) |
| Current : Provisions | 9 | (2 730 665) | - | - | (2 730 665) |
| Non Current Provisions | 9 | (509 000) | - | - | (509 000) |
| Accumulated Surplus | - | (272 427 743) | (1 894 921) | - | (274 322 664) |
| Total Liabilities and Equity | - | - | - | - | (296 626 015) |
| | - | 294 815 118 | 1 792 195 | - | - |

Statement of financial performance

| | Note | As previously reported | Correction of errors | Reclassification | Total |
|--------------------------------|----------|------------------------|----------------------|------------------|--------------------|
| Other Income | 15 | 445 113 | - | - | 445 113 |
| Interest Received - Investment | - | 4 503 583 | - | - | 4 503 583 |
| Property Rates | 12 | 4 977 152 | - | - | 4 977 152 |
| Government Grants & Subsidies | 13 | 138 242 006 | - | - | 138 242 006 |
| Total Revenue | - | 148 167 854 | - | - | 148 167 854 |
| Employee Related Costs | 17 | (26 538 744) | - | - | (26 538 744) |
| Remuneration of Councillors | 18 | (11 386 533) | - | - | (11 386 533) |

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

| | | | | | |
|--|----|-------------------|---------------|---|-------------------|
| Depreciation Amortisation and Impairment | 20 | (11 197 883) | - | - | (11 197 883) |
| Finance Cost | - | (37 000) | - | - | (37 000) |
| Debt Impairment | 19 | (397 010) | - | - | (397 010) |
| Repairs and Maintenance | - | (7 741 171) | (9 133) | - | (7 750 304) |
| Community Participation | - | (1 132 308) | - | - | (1 132 308) |
| General Expenses | 16 | (38 679 568) | 85 038 | - | (38 594 530) |
| Loss on Disposal of Assets | - | (1 348 391) | - | - | (1 348 391) |
| Surplus for the year | - | 49 709 246 | 75 905 | - | 49 785 151 |

Cashflow Statement

| | Note | As previously reported | Correction of errors | Total |
|--|------|------------------------|----------------------|-------------------|
| Government Grants and subsidies | - | 133 820 040 | - | 133 820 040 |
| Cash Receipts from Customers | - | 2 652 128 | - | 2 652 128 |
| Interest Income | - | 4 503 583 | - | 4 503 583 |
| Finance Costs | - | (37 000) | - | (37 000) |
| Cash Paid to Suppliers and Employees | - | (85 034 029) | - | (85 034 029) |
| Purchase of Property, Plant and Equipment | 2 | (42 464 760) | - | (42 464 760) |
| Purchase of intangible assets | 3 | (126 441) | - | (126 441) |
| Proceeds from Sale of Assets | - | 915 003 | - | 915 003 |
| Net increase in cash and cash equivalents | - | 14 228 524 | - | 14 228 524 |

28. Contingent liability

Incidents.

The municipality is currently involved in a legal dispute with Only If Management CC regarding waste collection services. The municipality believes that it is in a favourable position of winning the case. Should the municipality be held liable, the estimated cost regarding this matter will be R 526 315.26.

The municipality has not completed any employee job evaluations as prescribed in terms of the Salary and wage collective agreement between SALGA, IMATU and SAMWU - 27 July 2012. As a result the municipality is unable to measure, with sufficient reliability, the amount of such obligation for both the 30 June 2015 and 30 June 2014 year-ends.

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|-----------------|------|------|
|-----------------|------|------|

29. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and rates debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Financial assets exposed to credit risk at year end were as follows:

| | | |
|--|-------------|------------|
| Financial instrument | | |
| Trade and other receivables from non exchange transactions (Rates) | 4 485 662 | 3 176 419 |
| Cash and Cash Equivalents | 110 413 313 | 91 786 002 |

30. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|---|-------------|-------------|
| 31. Additional disclosure in terms of Municipal Finance Management Act | | |
| Contribution to Local Government Associations | | |
| Current year subscription | 500 000 | 751 799 |
| Amount paid | (500 000) | (751 799) |
| | - | - |
| Audit fees | | |
| Current year fee | 1 192 279 | 1 159 504 |
| Amount paid - current year | (1 192 279) | (1 159 504) |
| | - | - |
| PAYE and UIF | | |
| Current year deductions | 7 691 281 | 6 359 899 |
| Amount paid | (7 691 281) | (6 359 899) |
| | - | - |
| Pension and Medical Aid Deductions | | |
| Current year | 5 304 020 | 4 255 604 |
| Amount paid | (5 304 020) | (4 255 604) |
| | - | - |

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|-----------------|------|------|
|-----------------|------|------|

32. Multi employer retirement benefit

Umzumbe Local Municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes.

All full-time employees belong to the KwaZulu Natal Joint Municipal Pension Fund, which are made up by the Retirement, Superannuation and Provident Funds. Councillors have the option to belong to the Pension Fund for Municipal Councillors.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:-

- (i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
- (ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- (iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation. For both the Superannuation and Retirement Funds valuations making use of the Discontinuance Method Approach have been included as well.

DEFINED BENEFIT SCHEMES

Retirement Fund:

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2014 by Argen Actuaries.

The interim actuarial valuation performed as at 31 March 2014 revealed that the fund had a shortfall of R 124 (31 March 2013: shortfall of R 203,7) million, with a funding level of 91,7% (31 March 2013: 86,0%). The contribution rate, including the surcharges below, paid by the members (8,65%) and municipalities (34,22%) should be sufficient to eradicate the shortfall in the fund. However, the basic contribution payable is 0,5% less than the required contribution rate.

The actuarial shortfall is taken into account by determining surcharges, to be met by increased contributions. These surcharges amount to 17.5% of pensionable emoluments, of which 1,65% is payable by members and 15,85% is payable by the local authority

The fund has effectively been closed to new members, and it is therefore assumed for the valuation, that no new members will join the fund. However, at present, members of the three Natal Joint Funds are permitted to transfer between the funds and this flow of members may affect the rate of contribution required to be paid to the Fund.

Superannuation Fund:

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2014 by Argen Actuaries.

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|-----------------|------|------|
|-----------------|------|------|

The interim actuarial valuation performed as at 31 March 2014 revealed that the fund had a shortfall of R 0 (31 March 2011: shortfall of R 549,5) million, with a funding level of 100,0% (31 March 2011: 90,9%). The contribution rate paid by the members (9,25%) and municipalities (18,00%) is 0,71% (31 March 2011: 3,63%) less than the required contribution rate for future service and will be reviewed at the next interim valuation. The deficit in respect of active members is being met by a surcharge of 9,5% (31 March 2011 7,0%) of pensionable salaries. It was expected that the deficit will be fully funded by 2016.

This surcharge is payable until 31 July 2020. The surcharge to local authorities amounts to 9.50% (31 March 2011 7.00%). The "Scheme to eliminate deficiency" in terms of Section 18 of the Pension Funds Act was implemented with effect from 1 August 2012 for a period of 8 years.

The fund has effectively been closed to new members, and it is therefore assumed for the valuation, that no new members will join the fund. However, at present, members of the three Natal Joint Funds are permitted to transfer between the funds and this flow of members may affect the rate of contribution required to be paid to the Fund. It is intended that the Fund will merge with the Retirement Fund in the near future.

DEFINED CONTRIBUTION SCHEMES

Municipal Councillors Pension Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2011.

The interim valuation performed as at 30 June 2011 revealed that the assets of the fund amounted to R 1 483,786 381 (30 June 2010: R 1 123,672 020) million. The contribution rate paid by the members (13.75%) and the municipalities (15,00%) is sufficient to fund the benefits accruing from the fund in the future.

As reported by the Actuaries, the Fund was in a sound financial condition as at 30 June 2011.

Provident Fund:

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2014 by Argen Actuaries.

The interim actuarial valuation performed as at 31 March 2014 revealed that the market value of the fund was R 2 151,9 (31 March 2012: R 1 288,3) million. The contribution rate payable (either 5,00%, 7,00% or 9,25% by the member and 6,00%, 9,90% or 14,25% plus an additional 3,75% by the employer), is sufficient to cover the cost of benefits and expenses and the fund was certified to be in sound financial condition as at 31 March 2014.

None of the above mentioned plans are State Plans.

33. Related Party Transactions

Section 45 and 44 of SCM Regulations

Purchases from related parties

| | | |
|----------------------------------|--------|---|
| Odaleka Maintenance and Projects | 61 100 | - |
|----------------------------------|--------|---|

Odaleka Maintenance and Projects - The company is owned by the spouse of an employee (Manager Internal Audit) of Umzumbe Municipality.

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|-----------------|------|------|
|-----------------|------|------|

34. Section 36 deviations

During the year the Accounting Officer approved minor breaches amounting to R207 362.24 (2014 - R771 332.00)

During the year the Accounting Office approved deviations for disaster amounting to R4 885 015.26 and R 2 919 296.59 relating to the termination of a contract due to poor performance.